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SUBJECT: TRANSPORT MINISTER WANTS CLARITY ON U.S.-EU CIVAIR
NEGOTIATIONS

REF: STATE 195012

11. (SBU) Summary: In a December 11 discussion with Transport Minister Martin Cullen, the Ambassador highlighted the USG's continuing commitment to conclude the U.S.-EU air transport agreement, while noting that the USG was not prepared to pursue bilateral Open Skies options with Ireland. Cullen said that he would support the draft U.S.-EU agreement at the December 12 EU Transport Council meeting, but did not hold out hope of Council approval, given DOT's December 5 withdrawal of proposals on foreign investment in U.S. carriers. Cullen noted that Ireland's next steps would be to await the outcome of planned U.S.-EU talks in early January and then lobby for a first-phase accord incorporating acceptable elements of the current draft agreement, including the U.S.-Ireland transition annex. He added that if the U.S.-EU process were to fall apart in 2007, Ireland would be ready to pursue a separate bilateral arrangement. Cullen also noted that U.S.-EU prospects would influence Dublin Airport's development plans and the timing of Aer Lingus' decision on long-haul aircraft purchases. The Ambassador offered to confer with the Minister again after consulting with USG negotiators on the degree of clarity that might be available on the U.S.-EU process. End summary.

The Ambassador: USG Committed to the U.S.-EU Process

12. (SBU) In a December 11 meeting with Irish Transport Minister Martin Cullen, the Ambassador highlighted the USG's continuing commitment to conclude the U.S.-EU air transport agreement (per reftel), and he expressed appreciation for Irish support of the U.S.-EU process. The Ambassador noted that the U.S. Department of Transportation (DOT) had recently withdrawn its earlier proposal affecting foreign investment in U.S. carriers, a decision that would likely bring the U.S.-EU negotiations to a pause. The USG, he said, planned to resume talks in the New Year, while maintaining its position on the merits of the draft U.S.-EU agreement. The Ambassador acknowledged Ireland's interest in Open Skies and observed that the U.S.-EU situation was a source of frustration for all sides. He added, however, that the USG was not prepared to consider bilateral options on Open Skies with Ireland.

The Minister: Bilateral Options if Necessary

13. (SBU) Minister Cullen replied that he would defend the draft U.S.-EU agreement at the December 12 EU Transport Council meeting, while realizing that the agreement stood no hope of Council approval, given the December 5 withdrawal of DOT's investment proposal. This outcome, he remarked, was a disappointment for Ireland, as the scheduled November start date for the U.S.-Irish transition annex to the U.S.-EU

accord had already been missed. He recounted, moreover, that Ireland had abandoned its early 2005 effort to negotiate a bilateral Open Skies arrangement in deference to EU attempts to finalize a trans-Atlantic deal. Ireland had strongly supported the draft U.S.-EU agreement that emerged in November 2005 and was grateful to Transportation Secretary Mineta for recognizing Shannon's political sensitivities in working out the U.S.-Irish annex. Cullen expressed regret, however, that the U.S.-EU process had stalled over the past year and was poised for another likely impasse in 2007.

14. (SBU) Minister Cullen said that Ireland's next step would be to await the results of U.S.-EU talks in early January. He hoped that U.S. negotiators would bring new proposals to the table, but he doubted that any offer would assuage a group of ministers who continued to demand the "holy grail" of a new DOT approach to foreign investment. Cullen said that, following the January talks, he would likely lobby for the extraction of acceptable elements from the draft agreement for a "first phase" accord, to include the current terms of the U.S.-Irish annex. "Let's hold what we have and move where we can," he observed. After the past year's delay, however, Ireland was not prepared to wait another year for progress on the U.S.-EU front, Cullen cautioned. He added that, if the U.S.-EU process were to fall apart in 2007, Ireland would be ready to exercise its right to pursue a separate bilateral arrangement.

15. (SBU) Minister Cullen remarked that lack of clarity on the future of the U.S.-EU negotiations was playing havoc with Ireland's aviation sector strategy. The Irish Government, he noted, had set aside euro 1.5 billion for upgrades at Dublin Airport that would require concrete projections on trans-Atlantic service - information that would not be

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available with uncertainty in the U.S.-EU talks. Moreover, Aer Lingus was now thinking through long-haul aircraft purchase plans, again an exercise that was difficult in the absence of clarity on Ireland's future rights in the U.S. market. Cullen pointed out that while Aer Lingus was hoping to serve three additional cities in the near term (San Francisco, Orlando, and Washington Dulles), 22 U.S. cities had contacted the Transport Department about interest in direct service. He also remarked that the potential for increased two-way tourism, trade, and investment would be huge in an Open Skies context.

Planned Follow-up on U.S.-EU Prospects

16. (SBU) The Ambassador responded that he would contact the State Department and DOT to see the degree of clarity that might be available on the shape of the U.S.-EU process leading into the New Year and beyond. He offered to confer again with the Minister after those discussions. The Minister expressed thanks, noting that the Irish Government had already brought key political constituencies, including in Shannon, "to the water" on the importance of Open Skies. (Comment: In a follow-up up phone call to Cullen on December 12, the Ambassador pointed out that EU legal considerations had shut down the Irish Transport Department's move in early 2005 toward a bilateral Open Skies arrangement. Cullen confirmed that this was the case, but noted that Irish Attorney General Rory Brady was now on board for any bilateral aviation discussions. It was Brady who reportedly intervened in 2005 to prevent Irish Transport officials from moving on a bilateral arrangement.)

Cullen and Boeing

17. (SBU) When the Ambassador asked for Minister Cullen's views on Aer Lingus' planned long-haul aircraft purchases, Cullen responded that he preferred not to interfere in the carrier's management decisions. He added that this had been

the case even when Aer Lingus was still state-owned. Cullen recounted nonetheless that Boeing had given his office a presentation on the 787 Dreamliner earlier in 2006. He offered his personal view that the 787 was a "fabulous" plane and that he would like to see the model used for trans-Atlantic service. He also reiterated that prospects for the U.S.-EU negotiations would be a critical factor on the timing of Aer Lingus' purchase decision.

Ryanair's Motives for Aer Lingus Takeover Bid

18. (SBU) The Irish Government, still an Aer Lingus shareholder, was committed to do anything necessary to ensure that the carrier and Ryanair remained separate entities, according to Minister Cullen. He recalled that no aviation or financial experts had predicted Ryanair CEO Michael O'Leary's takeover bid for Aer Lingus in early October, especially after O'Leary had publicly announced his disinterest in the carrier's IPO. Cullen remarked that O'Leary likely attempted the bid because he felt that Aer Lingus would offer a good mix for his company and that, even if he did not succeed (as now appears the case), he could influence Aer Lingus' decisions as a major shareholder. O'Leary's overall objective, Cullen continued, was to dictate the renovation of Dublin Airport, which he would have been able to do had he acquired 80 percent of airport traffic with the Aer Lingus takeover. Cullen also remarked that Ryanair Chairman Peter Bonderman had experience in long-haul service and might perhaps have interest in expanding Ryanair into long-haul markets.

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